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TAGS: [EFIN](#) [ECON](#) [RS](#)
SUBJECT: GOR MONITORING OF BANKS, ANTI-CRISIS FUNDS

REF: MOSCOW 3322

Classified By: ECON MC Eric T. Schultz, Reasons 1.4 (b/d).

Summary

¶1. (C) During a November 11 meeting with leaders of the Russian Chamber of Commerce and Industry (RCCI), President Medvedev outlined a plan for Central Bank (CBR) officials to ensure that banks receiving anti-crisis funds turn those resources into loans for domestic firms. At the meeting, RCCI President Yevgeniy Primakov expressed support for this plan, demanding that banks extend credit as a means of sustaining employment and current levels of industrial production. In a November 12 meeting with us, Russian Union of Industrialists and Entrepreneurs (RUIE) First Vice President Aleksandr Murychev endorsed Medvedev's plan. He said effective supervision of the use of the GOR's anti-crisis resources was critical and praised official efforts to mitigate the crisis, while expressing hope that the GOR would soon expand support to include regional banks and small businesses. Murychev also claimed that the government's policy of accumulating reserves had been vindicated and that the reserves would be sufficient to see Russia through the downturn. End Summary.

Medvedev: Russia Can "Demand" Bank Action

¶2. (U) During a November 11 meeting with RCCI leaders, a portion of which was televised and which Russian newspapers covered extensively, President Medvedev announced that Central Bank (CBR) "commissars" would monitor the disbursement of budget- and reserves-sourced liquidity to the country's largest banks. According to Medvedev, the program is designed to remedy slow financial intermediation between the GOR and firms in need of credit. Medvedev said CBR officials would be responsible for ensuring that government funds deposited with the banks would actually be transferred to firms in the form of loans rather than used to shore up recipient banks' balance sheets.

¶3. (U) In the same meeting, RCCI President Primakov publicly and volubly expressed his support for the CBR monitoring program. He explained that the banks receiving these public funds had a "social obligation" to pass the resources along in the form of credit financing. He said the GOR should demand cooperation from recipient banks. Tight or closed global credit markets meant the GOR's anti-crisis liquidity was a lifeline for all Russian firms and, consequently, was

necessary to sustain current employment and production levels.

Supervision: The Missing Link?

14. (C) In a November 12 meeting with us, RUIE First Executive Vice President Aleksandr Murychev also embraced the CBR monitoring program. He told us the banks' management of this liquidity would be key to the success of the GOR's anti-crisis measures. He supported the GOR's plan for Central Bank monitors to supervise the implementation of the program. Earlier in the year, the large banks that had received billions of rubles in short-term loans had absorbed those resources with little impact on the banking sector or the broader economy. Murychev said Central Bank monitors would inject an element of accountability into the anti-crisis program and would ensure the liquidity was used effectively.

GOR Should Support Regional Banks, SMEs

15. (C) Murychev said staving off deepening uncertainty about the banking sector's solvency was and would continue to be a key challenge for the GOR. He expressed optimism that the GOR would continue to demonstrate flexibility regarding anti-crisis measures. In that regard, he said the GOR might need to re-evaluate its approach to supporting the banking sector as the effects of the crisis become more acute. For example, most of the Russian banks that have experienced the greatest difficulty have been relatively large, internationally rated private banks headquartered in Moscow. That large Moscow banks were safe banks was no longer axiomatic, according to Murychev. He commended regional banks for having stayed afloat on their own so far through their prudent management of cash and clients. However, these banks would inevitably face difficulties, and directing more liquidity to them would become increasingly critical in the coming weeks and months.

16. (C) Murychev said the RUIE supported a government boost to aggregate demand. An increase in the volume of government procurement contracts and subsidized interest rates would help small businesses as well as sustain employment and overall commercial activity across the country. As with support to the banking sector, careful oversight would be critical to the success of this proposal. Business associations and officials needed to insist on a transparent bidding process.

Reserves and the Ruble

17. (C) Murychev praised the GOR's financial stewardship which had produced close to \$600 billion in reserves in recent years. The Finance Ministry's conservative fiscal policy had been vindicated and had given Russia the resources to withstand current conditions. Murychev acknowledged that reserves had dropped sharply since mid-August but argued the reserves had been earmarked responsibly and creatively to address the domestic effects of the financial crisis. He said that RUIE member firms, in a series of surveys on the GOR's anti-crisis measures, strongly supported efforts to ensure the country's banks had reliable access to liquidity as the necessary first step in resolving the credit crunch.

18. (C) Murychev asserted that, although the financial crisis had affected the U.S. for more than a year, it had affected Russia for only three months. Capital might continue to flow out of the country as investors and depositors worried about the value of the ruble and the stability of the banking sector. Foreign currency reserves, however, were sufficient to mitigate the economic strain of falling commodity prices and weakening demand. Referring to Medvedev's November 5 Presidential Address, he added that the goal of making the

ruble a reserve currency was a natural aspiration because of what it represented: a strong economy and stable political environment (reftel). Murychev conceded, however, that the long-term program of reforming the Russian economy and enhancing the status of the ruble would be a distant second priority behind efforts to stabilize the economy for the next 18 months.

Comment

19. (C) We are skeptical that the GOR will succeed in getting banks to expand lending by Central Bank oversight and fiat. Moreover, this strikes us as further evidence of the GOR's continuing faith in administrative controls to resolve economic problems -- a bad predisposition given that the crisis will deepen in coming months and the GOR will inevitably flirt with capital and price controls among other state-centric measures. End Comment.
BEYRLE